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FISCAL IMPACT STATEMENT

LS 6647 **NOTE PREPARED:** Jan 8, 2013
BILL NUMBER: SB 527 **BILL AMENDED:**

SUBJECT: Judges' and Prosecutors' Pensions.

FIRST AUTHOR: Sen. Boots **BILL STATUS:** As Introduced
FIRST SPONSOR:

FUNDS AFFECTED: X **GENERAL** **IMPACT:** State
DEDICATED
FEDERAL

Summary of Legislation: The bill changes various provisions of the Judges' 1985 Retirement System (Judges' System) to incorporate features that are the same as or similar to features found in the Prosecuting Attorneys' Retirement Fund (PARF) law, including:

(1) The definition for "salary" is changed from the total salary paid to a member by the state and the county, to the total salary paid to a member by the state only;
(2) The age and service requirements to receive an unreduced retirement benefit are changed. Currently, members are eligible for normal retirement benefit at 55 years of age with 85 (age + service) points. The bill changes this so that members are entitled to unreduced retirement benefits only upon attainment of 65 years of age with 8 years of service;
(3) The reduction for early retirement is increased from 0.1% to 0.25% for each month that the member's age at retirement precedes age 65;
(4) The early retirement reduction is applied to all survivor benefits payable when a member dies prior to retirement. Current law outlines that no early retirement reduction is applied to the survivors' benefit if the member's death occurs prior to July 1, 2013;
(5) The service requirement for receiving disability retirement benefits is increased from 0 years to 5 years;
(6) The benefit percentage payable to new disabled retirees is reduced to 40% for 5 to 10 years of service, increasing 1% per year of service thereafter up to 50% at 20 or more years of service. Currently, the benefit percentage for disabled retirees is 50% for 0 to 12 years of service, increasing 1% per year of service thereafter up to 60% at 22 or more years of service.

The bill also changes various provisions of PARF law to incorporate features that are the same as or similar to features found in the Judges' System, including:

(1) The state may elect to pay the member contribution as a "pick-up" contribution under IRC Section 414(h), which was not previously allowable;
(2) Active members will be required to contribute 6% of pay for only the first 22 years of service, rather than for all years of service;
(3) Interest on participant amounts will be credited at least annually, at a rate determined by the Board of Trustees of the Indiana Public Retirement System (INPRS);
(4) Survivor benefits are provided to members who terminated employment after 8 years of service and died prior to commencing their retirement benefit;
(5) The minimum annual death benefit payable to a survivor is increased from $7,000 to $12,000;
(6) Fractional years of service are recognized in the calculation of member/survivor benefits.

Effective Date: July 1, 2013.

Explanation of State Expenditures: *Judges' System* - Costs attributed to the Judges' System will decrease due to the provisions of the bill. For prefunded plans such as the Judges' System, costs are defined as the increase in the unfunded actuarial liability of the fund. The decrease in cost is therefore $8.2 M.

The provisions within this bill will increase the funding ratio of the Judges' System from 59.4% to 60.5%

The Judges' System is financed through a combination of employee contributions, state General Fund appropriations, and certain docket fees and court fees. The provisions of the bill would decrease state funding obligations by roughly $1.3 M per year.

PARF - Costs attributed to PARF will increase a small amount due to the provisions of the bill. For prefunded plans such as PARF, costs are defined as the increase in the unfunded actuarial liability of the fund. The increase in cost is therefore approximately $16,500.

The provisions within this bill will not change the current funding ratio of PARF, which is 49%.

PARF is financed through a combination of employee contributions from prosecuting attorneys and chief deputy prosecuting attorneys and state General Fund appropriations. The provisions of the bill would decrease employee contributions by roughly $82,000 per year, while increasing General Fund costs by $84,000 per year. The change within the bill limiting PARF member contributions to 22 years shifts some of the cost from PARF members to the state.

Explanation of State Revenues:

Explanation of Local Expenditures:

Explanation of Local Revenues:

State Agencies Affected: Indiana Public Retirement System; Indiana Prosecuting Attorneys Council.

Local Agencies Affected:

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Definitions: *Prefunded Plan* - Prefunded plans are funded through contributions (from employees, employers, and/or other sources) that are actuarially calculated to equal the benefit accrual cost for the year (normal cost) plus a 30-year amortization of the unfunded actuarial liability.

Unfunded Actuarial Liability - The actuarial liability, sometimes called the unfunded liability, of a retirement system at any time is the excess of its actuarial liability at that time over the value of its cash and investments.

Funding Ratio - The funding ratio is the ratio of a pension or annuity's assets to its liabilities.

Pickup Provision - This is a provision of government defined benefit plans where an employee may defer some income tax by electing to place it in a trust account for retirement. As a result, the amount deferred is not subject to income tax at the time it is placed in the trust. However, the deferred amounts are subject to Social Security and Medicare (FICA) tax.